Firm Capital

FIRM CAPITAL MORTGAGE INVESTMENT TRUST

ANNUAL REPORT 2001

Firm Capital

FIRM CAPITAL MORTGAGE INVESTMENT TRUST

TRUST PROFILE

Firm Capital Mortgage Investment Trust, through its Mortgage Banker, Firm Capital Corporation, is a non-bank lender providing residential and commercial real estate finance. The Trust's investment objective is the "Preservation of Unitholders' Equity", while providing Unitholders with a stable stream of monthly distributions from the Trust's investments, targeting returns on equity in excess of 400 basis points over Government of Canada one year average treasury bill yields. The Trust achieves its investment objectives by pursuing a strategy of growth through investments in selected niche markets that are under-serviced by large lending institutions.

The Trust's Units are listed on the Toronto Stock Exchange, stock symbol – FC.UN.

MORTGAGE BANKER PROFILE

Firm Capital Corporation is the Trust's Mortgage Banker, acting as the Trust's loan originator, underwriter, servicer and syndicator. Firm Capital Corporation is a non-bank lender providing construction, equity and conventional real estate finance to the builder, developer and real estate owner marketplace.

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REPORT TO UNITHOLDERS

OVERVIEW

2001 was a very successful year for Firm Capital Mortgage Investment Trust (the "Trust"). The Trust continued to maintain a very high quality mortgage portfolio, producing distributions to Unitholders during the period of $0.965 per unit. This distribution represented an annualized return on Unitholders' equity of 11.1%.

Demand for short term real estate debt has been very strong, and as a result, the Trust has completed two additional unit offerings since its initial public offering. In June 2001, the Trust completed a second offering, issuing a further 2,012,500 units for total gross proceeds of $18,112,500. In March 2002 the Trust completed a third offering issuing 3,450,000 units for total gross proceeds of $32,430,000.00. The total gross funds raised from the two offerings total 50,542,500.

Firm Capital Corporation originated in excess of $315,000,000 in mortgage transactions for the year 2001, and as a result, the Trust continues to benefit from a vast diversified pool of niche mortgage product over which it has a first right of refusal.

FINANCIAL RESULTS

During 2001, the Trust continued to maintain a highly diversified mortgage portfolio comprising predominately residential first mortgages on properties located in the Greater Toronto Area. The Trust mortgage portfolio at December 31, 2001 totalled $46,616,691 and comprised 125 separate mortgage investments. The average mortgage investment size at December 31, 2001 was $373,000. The low average investment size is a reflection of the Trust participation in a wide basket of investments with other syndicate partners. Management is very pleased with the Trust mortgage investment performance relative to market interest rates. The average interest rate on the Trust's mortgage investments at December 31, 2001, before leverage, was 10.50% per annum, as compared to a yield of 2.18% per annum for the comparable Government of Canada one year Treasury Bill.

Net earnings for the year ended December 31, 2001 totalled $3,643,300, representing earnings per unit of $0.98 for the year, based on the weighted average number of units outstanding. Distributions to Unitholders during 2001 totalled $0.965 per unit representing an annualized return on Unitholders' equity of 11.1%. This return on Unitholders' equity equates to 729 basis points per annum over the average Government of Canada one year treasury bill yield and is well in excess of the Trust's target yield objective of 400 basis points per annum over the one year treasury bill yield. The annual distribution of $0.965 per unit is greater than the amount paid in 2000 of $0.952 per unit, notwithstanding the large decrease in market interest rates. The yield to maturity for the Government of Canada one year Treasury Bill has decreased from 5.40% as at December 31, 2000 to 2.18% as at December 31, 2001, representing a 60.0% decrease in market interest rates. The 2001 distribution represented a yield of 10.16% per annum based on the December 31, 2001 TSE closing unit price of $9.50.

LOOKING FORWARD

The performance of the Trust during 2001 reflects the fact that the Trust has established a diversified mortgage portfolio that produces a stable stream of distributions to the Trust Unitholders. Management will continue to focus on its fundamental operating philosophy being the preservation of Unitholders' equity, particularly in light of the mature real estate cycle in which the Trust operates.

For 2002, the Trust looks forward to fully investing the capital raised from its third offering which will result in a larger and more diversified mortgage portfolio. The Trust will continue to maintain a low relative level of leverage and may hold a portion of its asset base in cash, waiting for higher yielding transactions that would not require leverage to enhance yield. The successful completion of the Trust's second and third offerings has allowed the Trust to achieve its objective of growing its mortgage portfolio through the issuance of equity as opposed to debt.

Looking forward for 2002 management expects to exceed the Trusts objective of earning and distributing to Unitholders an amount that represents a return on Unitholders equity in excess of 400 basis points above Government of Canada one year treasury bill yields.

ELI DADOUCH
President
Chief Executive Officer

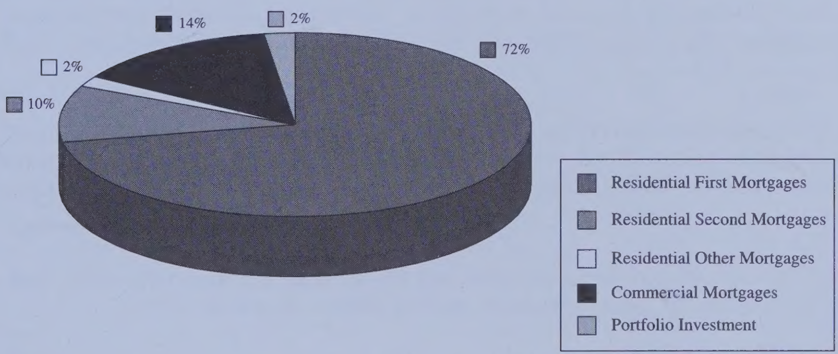
JONATHAN MAIR
Senior Vice-President
Chief Financial Officer

MORTGAGE PORTFOLIO HIGHLIGHTS

Total Mortgage Portfolio Before Allowances	$ 46,819,191
Number of Mortgage Investments	125
Average Mortgage Investment Size	$ 374,554
Average Exposure Per Mortgage Net of Specific Debt	$ 323,849
Average Face Interest Rate	10.50%
Average Gross Yield After Specific Leverage	11.07%
Percentage of Portfolio which is Residential*	86%
Percentage of Portfolio which are First Mortgages*	87%
Percentage of Portfolio with Floating Interest Rates*	64%
Percentage of Portfolio maturing within 12 months*	91%

* Not Including a Portfolio Investment

Firm Capital Mortgage Investment Trust
Mortgage Portfolio Analysis



FINANCIAL HIGHLIGHTS

	2001
Net Earnings for the Period	$3,643,300.00
Net Earnings Per Unit, Based on the Weighted Average Number of Units Outstanding	$ 0.98
Distribution Per Unit for 2001	$ 0.965
Return on Unitholder's Equity	11.10%
Return on Unitholder's Equity in excess of Government of Canada One Year Average Treasury Bill Yields	7.29%
Distribution Yield based on December 31, 2001 TSE Closing Unit Price	10.16%
Debt as a Percentage of Mortgage Investments	15.74%

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Firm Capital Mortgage Investment Trust (the "Trust") is an unincorporated closed end trust created by a Declaration of Trust and governed by the laws of the Province of Ontario. The Trust is a non-bank lender providing predominantly short term residential and commercial real estate finance. The Trust's primary investment objective is the preservation of Unitholders' equity, while providing Unitholders with a stable stream of distributions from the Trust's investments. The Trust achieves its investment objectives by pursuing a strategy of investing in selected niche real estate finance markets that are under-serviced and lack significant competition from other lenders. Firm Capital Corporation is the Trust's Mortgage Banker and acts as the Trust's loan originator, underwriter, servicer and syndicator. The Trust's affairs are administered by the Trust Manager, FC Treasury Management Inc.

On April 25, 2001, Standard & Poor's assigned an SR-3 stability rating to the Trust. As detailed in its press release dated April 25, 2001, Standard & Poor's stated that "The outlook reflects Standard & Poor's expectation that Firm Capital Mortgage's sound business profile and prudent mortgage portfolio structure, supported by active risk management measures, will support the Trust's ability to sustain a high degree of stability in its distribution stream in the near term." The SR-3 rating was reconfirmed by Standard & Poor's in February, 2002.

By the end of the second quarter of 2002, the Trust intends on implementing for its Canadian Unitholders the opportunity to increase their holdings by participating in the Trust's Unitholder Distribution Reinvestment Plan. Unitholders who wish to enroll or that would like further information about the Plan should contact Susan Greenbaum-DiBari at Firm Capital Mortgage Investment Trust, Telephone: (416) 635-0221.

Firm Capital Corporation intends to provide additional information on the Trust, and its mortgage portfolio, on a monthly basis on the Firm Capital Corporation web site at *www.firmcapital.com*. This mortgage portfolio information will provide Unitholders with highlights of the Trust's mortgage portfolio on a monthly basis.

This section should be read in conjunction with the audited financial statements and related notes included in this Annual Report, along with each of the quarterly reports for 2001.

ADDITIONAL OFFERINGS OF UNITS

The demand for short term real estate debt has been very strong and as a result the Trust has completed two additional unit offerings since its initial public offering. In June, 2001, the Trust completed an offering of 2,012,500 units at a price of $9.00 per unit for total gross proceeds of $18,112,500. In March, 2002, the Trust completed an offering of 3,450,000 units at a price of $9.40 per unit for total gross proceeds of $32,430,000.

The total gross funds raised from the two offerings was $50,542,500.

MORTGAGE PORTFOLIO

As at December 31, 2001, the Trust's mortgage portfolio increased to $46,616,691 as compared to $34,552,340 as at December 31, 2000, representing an increase of 35%. The number of mortgage investments comprising the portfolio increased from one hundred at December 31, 2000 to one hundred

and twenty five at December 31, 2001. The average mortgage investment size increased from $346,000 at December 31, 2000 to $373,000 at December 31, 2001. The Trust enhances the quality and diversity of its mortgage portfolio by minimizing its exposure per mortgage investment. Where possible, the loans are shared with other syndicate partners to diversify risk.

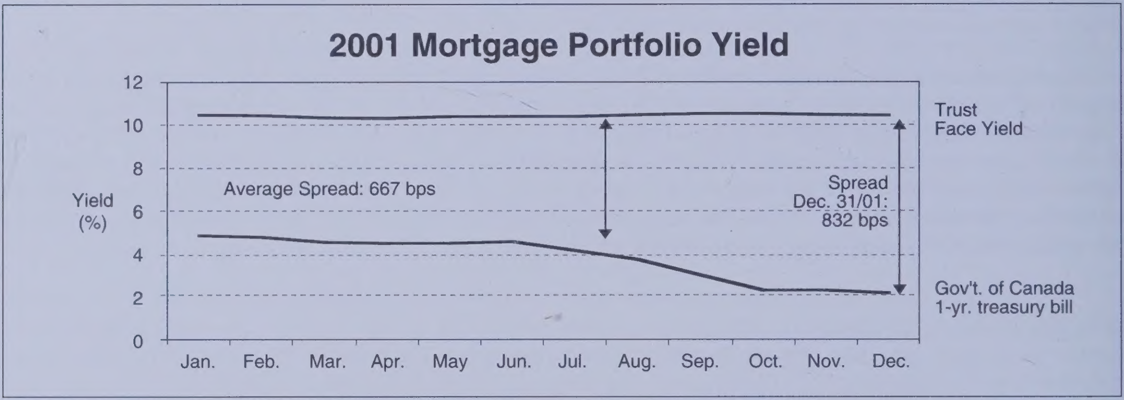
Consistent with the Trust's objectives, the December 31, 2001 mortgage portfolio continued to be heavily concentrated in short term, residential first mortgages. 84% of the portfolio was comprised of residential mortgages and 86% of the portfolio was comprised of first mortgages. A total of 64% of the portfolio was comprised of variable, floating rate investments, and 91% of the portfolio will mature on or before December 31, 2002. The short term nature of the portfolio provides the Trust with the ability to continually revolve the portfolio. As the portfolio revolves, the Trust is able to reposition and update its specific investment focus, in light of the continually evolving real estate and financing market place.

The Trust has recorded a specific provision for loan losses against its mortgage portfolio in the amount of $202,500 as at December 31, 2001 as compared to $90,000 as at December 31, 2000. Management feels that although the Trust has sustained zero actual loan write-offs to date, the provision is prudent and conservative. The provision will continue to be reviewed by the Trustees and if appropriate, will be adjusted on a quarterly basis. The increase in loan loss provision during the year ended December 31, 2001 in the amount of $112,500 is recorded under "Other" trust expenses in the Trust's financial statement.

The following table presents the Trust's average mortgage portfolio yield before leverage, relative to the month-end Government of Canada one year treasury bill yield.

Month End (2001)	1 Year Government Of Canada Treasury Bill Yield	Portfolio Average Yield	Portfolio Average Yield In Excess of Treasury Bill Yield
January	4.91%	10.51%	5.60%
February	4.81%	10.50%	5.69%
March	4.57%	10.40%	5.83%
April	4.53%	10.34%	5.81%
May	4.51%	10.43%	5.92%
June	4.59%	10.43%	5.84%
July	4.20%	10.45%	6.25%
August	3.76%	10.54%	6.78%
September	3.03%	10.56%	7.53%
October	2.33%	10.57%	8.24%
November	2.33%	10.51%	8.18%
December	2.18%	10.50%	8.32%
12 Month Average:	3.81%	10.48%	6.67%

The following graph illustrates the comparison of Government of Canada one year treasury bill yields to the portfolio average face interest rate.



Management is very pleased with the Trust's mortgage investment performance relative to market interest rates. The average face interest rate on the mortgage investments before leverage was 10.50% per annum, and the average mortgage gross yield after specific borrowings was 11.07% per annum as at December 31, 2001, as compared to a yield of 2.18% per annum for the comparable Government of Canada one year treasury bill. Interest rates charged to borrowers on the Trust's mortgage portfolio have remained essentially unchanged from fiscal 2000 levels, with the average rate at December 31, 2000 being 10.53%, as compared to 10.50% at December 31, 2001, notwithstanding a declining interest rate environment. The portfolio interest yield enhancement achieved through specific borrowings has declined from 113 basis points per annum as at December 31, 2000 to 57 basis points per annum as at December 31, 2001, reflecting a lower borrowing base. Notwithstanding the decrease in yield enhancement obtained through leverage, the Trust was still able to exceed its yield objective for the portfolio. Going forward, management will continue to implement its policy of having a small borrowing base, resulting in a stronger balance sheet. The Trust will utilize cash balances first, and will thereafter draw on available leverage to fund its investments. To capitalize on market investment opportunities, the Trust may hold a portion of its asset base in cash, waiting for higher yielding transactions that would not require leverage to enhance yields. In management's view, in the long run the Trust will benefit from this approach. Management fees paid to the Trust Manager are based on the performing mortgage portfolio and not on cash balances held by the Trust.

Management remains focused on its primary objective of preserving Unitholders' equity by creating a portfolio that; (i) is widely diversified; (ii) is heavily concentrated in residential first mortgages; (iii) has reduced exposure as a result of participation in various loan syndicates; and (iv) is primarily short term in nature.

NET EARNINGS AND FINANCIAL POSITION

The financial information as at December 31, 2001 and the results of operations for the year then ended are presented in accordance with Canadian generally accepted accounting principles applicable to investment trusts.

RESULTS OF OPERATIONS

Net earnings for the year ended December 31, 2001 totalled $3,643,300, representing earnings per unit of $0.98 for the year, based on the weighted average number of units outstanding, as compared to $2,422,400 or $0.952 per unit for the year ended December 31, 2000.

The Trust earned interest and fee income of $5,108,648 during 2001 principally from its mortgage portfolio holdings, being a 28.6% increase from the prior year's interest and fee income of $3,972,378.

Operating expenses for the year totalled $1,121,084 consisting of advisory management fees of $312,873 and interest expense of $808,211. "Trust Expenses" represented $344,264, and included Trustee fees of $56,000, a provision for future loan losses of $112,500 and other fixed operating costs of $175,764.

The policy of the Trust is to distribute 100% of its net earnings to Unitholders. As a result, the total distribution for 2001 was $3,643,300 being $0.965 per unit, as compared to $2,422,400, or $0.952 per unit for 2000. Monthly distributions to Unitholders were very stable during 2001, with the Trust distributing $0.075 per unit for each of the months of January to November, 2001. On December 31, 2001, the Trust distributed $0.14 per unit representing the regular monthly distribution for December, along with a distribution of special profit earned on the Trust's non-conventional mortgage investments.

The 2001 net earnings and distributions represented an annualized return on Unitholders' equity of 11.1%. This return on Unitholders' equity represents 729 basis points per annum over the average Government of Canada one year treasury bill yield during 2001, and is well in excess of the Trust's target yield objective of 400 basis points per annum over the one year treasury bill yield. The 2001 annual distribution of $0.965 per unit is greater than the amount paid out in 2000 of $0.952 per unit, notwithstanding the large decrease in market interest rates. The yield to maturity for the Government of Canada one year treasury bill has decreased from 5.40% as at December 31, 2000 to 2.18% as of December 31, 2001. This decline represents a 60% decrease in market interest rates.

Management is pleased with the profits made during 2001 from non-conventional mortgage investments. The Trust continues to hold non-conventional mortgage investments and anticipates that additional profits will be earned throughout 2002.

CHANGES IN FINANCIAL POSITION

Assets

The amounts receivable of $617,431 as at December 31, 2001 was primarily comprised of interest payments due from borrowers on January 1, 2002, as mortgage payments are paid in arrears. The Trust's mortgage portfolio at December 31, 2001 totalled $46,616,691 representing an increase of 35% from December 31, 2000. An additional allowance for loan losses in the amount of $112,500 was recorded during 2001 bringing the total allowance to $202,500 as at December 31, 2001. The recording of the specific allowance for loan losses is a conservative approach to managing the mortgage portfolio, and is consistent with management's philosophy of preservation of unitholders' equity. The Trust had no actual loan write-offs for the fiscal year.

Liabilities

Bank indebtedness as at December 31, 2001 totaled $1,000,805 as compared to bank indebtedness at December 31, 2000 of $414,310. The Trust has fully invested all of the funds raised from its public offering that was completed in June, 2001. Accounts payable and accrued liabilities of $205,448 as at December 31, 2001 comprised primarily of interest payable on the Trust's loans payable and unearned revenue of $79,312. Management anticipates that the unearned revenue will be earned during 2002. There are no assurances as to the timing of the recognition of this revenue. Loans payable of $6,338,071 as at December 31, 2001 as compared to $11,358,332 as at December 31, 2000, are secured by a first priority charge on specific mortgage investments. The loans have maturity dates matching those of the underlying mortgages. The loans payable are on a non-recourse basis such that the Trust will not be liable for any deficiency sustained by the lender on any specific loan.

As previously discussed, to capitalize on market investment opportunities, the Trust may hold a larger portion of its asset base in cash waiting for higher yielding transactions that would not require leverage to enhance yield. The Trust has significantly reduced its loans payable as a percentage of the mortgage portfolio. Loans payable as at December 31, 2001 represented 13.6% of the total mortgage portfolio size, as compared to 32.9% as at December 31, 2000. Management is of the opinion that it can meet the Trust's investment objective of earning a yield on Unitholders equity in excess of 400 basis points per annum over a one year Government of Canada Treasury Bills, while maintaining minimal leverage on its mortgage portfolio.

Unitholders' Equity

Unitholders' Equity at December 31, 2001 totalled $39,689,788 ($23,178,708 as at December 31, 2000). The increase is a result of the net proceeds received from the June 1, 2001 offering of $16,511,090. Distributions to Unitholders during the year ended December 31, 2001 totalled $0.965 per unit, as further discussed earlier herein under "Results of Operations". The Trust issued a further 3,450,000 units in March, 2002 for gross proceeds of $32,430,000.

LIQUIDITY AND CAPITAL RESOURCES

Pursuant to the Declaration of Trust, 100% of the Trust's net earnings must be distributed to unitholders. This means that growth in the mortgage portfolio must be achieved through raising additional equity and utilizing available borrowing capacity. As at December 31, 2001, the Trust had not utilized its full leverage availability, being a maximum of 60% of its first mortgage investments. The Trust has entered into a demand based, credit arrangement with its principal banker, to fund the timing differences between mortgage advances and mortgage repayments. The Trust's mortgages are predominantly short term in nature, and as such, the continual repayment by Borrowers of existing mortgage investments creates liquidity for ongoing mortgage investments and commitments.

RISKS AND UNCERTAINTIES

The Trust has been structured to ensure that mandated investment guidelines and operating criteria, as set out in the Declaration of Trust are strictly adhered to. These policies govern such matters as: (i) restricting exposure per mortgage investment; (ii) requirements for independent trustee approvals; and (iii) implementation of operational risk management policies.

The Trust is faced with the following ongoing risk factors among others, that would affect Unitholders' equity and the Trust's ability to generate returns:

- *Economic conditions that would result in increased default ratios.* Management mitigates this risk factor by implementing a strong default management program that entails immediate enforcement as any default situation arises.
- *The inability to obtain borrowings and leverage, thus reducing yield enhancement*. The Trust mitigates this risk factor by continuously pursuing various avenues for credit facilities, and loan warehousing facilities.
- *Dependence on the Trust Manager and Mortgage Banker*. The Trust's earnings are impacted by the Mortgage Banker's ability to source and generate appropriate mortgage investments that provide sufficient yields while maintaining pre-determined risk parameters. The Trust has entered into contracts with the Mortgage Banker and the Trust Manager, as more particularly defined in the Trust's Declaration of Trust.
- *Interest rate fluctuations*. The Trust's investment policy is predominantly to invest in short term loans, and loans that have floating interest rates. Interest on loans payable is matched to specific mortgage investments, thereby ensuring a positive interest rate spread.

OUTLOOK

The Trust continues to maintain a diversified mortgage portfolio, producing a stable return to Unitholders. The Trust continues to be prudent and cautious with respect to the mature nature of the Ontario real estate market and will, where possible, continue to reduce risk by syndicating investments and will maintain a small borrowing level as a percentage of its mortgage portfolio. This approach will ensure that the Trust is not significantly exposed to any one mortgage investment.

Looking forward for 2002, management expects to exceed the Trust's objective of earning and distributing to Unitholders an amount that reflects a return on unitholders equity in excess of 400 basis points above Government of Canada one year treasury bill yields for the respective period. There are no assurances that the large spread over Government of Canada one year treasury bill yields earned in 2001 will be repeated in 2002.

The successful completion of the Trust's second and third public offerings since the beginning of its last fiscal year has allowed the Trust to achieve its objective of growing its mortgage portfolio through the issuance of equity as opposed to debt.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and information included in this Annual Report have been prepared by the management of Firm Capital Mortgage Investment Trust, which is responsible for their consistency, integrity and objectivity. The Trust maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are consistent, efficient and of a high quality.

An independent auditor appointed by management, PriceWaterhouseCoopers LLP, has audited the financial statements of Firm Capital Mortgage Investment Trust in accordance with generally accepted auditing standards and has provided an independent professional opinion thereon.

Estimates are necessary in the preparation of financial statements because a precise determination of some assets and liabilities depends on future events.

The financial statements have been reviewed and approved by the Board of Trustees and the Audit Committee. This Committee meets regularly with management and the auditors who have full and free access to the Committee.

Eli Dadouch
President
Chief Executive Officer

Jonathan Mair
Senior Vice-President
Chief Financial Officer

AUDITORS' REPORT

February 22, 2002
(except for note 10, which is as at March 8, 2002)

To the Unitholders of
Firm Capital Mortgage Investment Trust

We have audited the balance sheets of **Firm Capital Mortgage Investment Trust** as at December 31, 2001 and 2000 and the statements of earnings, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the management of the Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of **Firm Capital Mortgage Investment Trust** as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada

BALANCE SHEETS
As at December 31, 2001 and 2000

	2001	2000
Assets		
Amounts receivable and prepaids	$ 617,432	$ 414,310
Mortgages (note 3)	46,616,690	34,552,340
	$47,234,122	$34,966,650
Liabilities		
Bank indebtedness (note 4)	1,000,805	288,600
Accounts payable and accrued liabilities	205,448	141,010
Loans payable (note 9)	6,338,071	11,358,332
	7,544,324	11,787,942
Unitholders' Equity		
Issued and outstanding (note 5) 4,557,500 (2000 – 2,545,000) units	39,689,798	23,178,708
	$47,234,122	$34,966,650

STATEMENTS OF UNITHOLDERS' EQUITY
For the years ended December 31, 2001 and 2000

	2001	2000
Unitholders' Equity – Beginning of year	$23,178,708	$23,178,708
Net earnings for the year	3,643,300	2,422,400
Proceeds from issuance of units	18,112,500	—
Public offering costs	(1,601,410)	—
Distributions to unitholders	(3,643,300)	(2,422,400)
Unitholders' Equity – End of year	$39,689,798	$23,178,708

Approved by the Board of Trustees

JONATHAN MAIR
Trustee

ELI DADOUCH
Trustee

STATEMENTS OF EARNINGS
For the years ended December 31, 2001 and 2000

	2001	2000
Operating revenue		
Mortgage interest and fees earned	$5,108,648	$3,972,378
Operating expenses		
Advisory management fees	312,873	264,710
Interest	808,211	967,328
	1,121,084	1,232,038
	3,987,564	2,740,340
Trust expenses		
Trustee fees	56,000	56,000
Other	288,264	261,940
	344,264	317,940
Net earnings for the year	3,643,300	2,422,400
Weighted average number of units outstanding	3,718,958	2,545,000
Net earnings per unit	0.98	0.95

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2001 and 2000

	2001	2000
Cash provided by (used in)		
Operating activities		
Net earnings for the year	$ 3,643,300	$ 2,422,400
Item not affecting cash		
Increase in allowance for loan losses	112,500	90,000
	3,755,800	2,512,400
Net changes in non-cash items		
Increase in amounts receivable and prepaids	(203,122)	(88,236)
Increase (decrease) in accounts payable and accrued liabilities	64,438	(210,634)
	3,617,116	2,213,530
Investing activities		
Funding of mortgages	(44,183,009)	(32,708,140)
Discharge of mortgages	32,006,159	31,069,479
	(12,176,850)	(1,638,661)
Financing activities		
Proceeds from issuance of units	18,112,500	—
Increase in bank indebtedness	712,205	288,600
Increase (decrease) in loans payable	(5,020,261)	644,379
Public offering costs	(1,601,410)	—
Distributions to unitholders	(3,643,300)	(2,422,400)
	8,559,734	(1,489,421)
Net decrease in cash and cash equivalents during the year	—	(914,552)
Cash and cash equivalents – Beginning of year	—	914,552
Cash and cash equivalents – End of year	—	—
Supplemental disclosure		
Interest paid	859,000	945,000

NOTES TO FINANCIAL STATEMENTS
December 31, 2001 and 2000

1 Organization of trust

Firm Capital Mortgage Investment Trust (formerly Firm Capital Mortgage Investment Fund) (the Trust) is a closed-end trust created for the benefit of the unitholders, pursuant to the declaration of trust dated July 13, 1999, as amended and restated. On October 6, 1999, the Trust completed an initial public offering of units.

Pursuant to the declaration of trust, the Trust's mortgage banker is Firm Capital Corporation and the trust manager is FC Treasury Management Inc.

2 Summary of significant accounting policies

Comparative figures

Certain of the prior year's figures have been reclassified in order to conform with the current year's presentation.

Mortgages

Mortgages are stated at cost, net of an allowance for loan losses.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ from those estimates.

Financial instruments

The Trust's amounts receivable and prepaids, bank indebtedness, accounts payable and accrued liabilities are carried at cost, which approximates their fair value due to their short-term nature.

3 Mortgages

Credit risk arises from the possibility that mortgagors may experience financial difficulty and be unable to fulfill their mortgage commitments. In accordance with the operating policies of the declaration of trust, the Trust mitigates the risk of credit loss by ensuring that its mix of mortgagors is diversified and by limiting its exposure to any one mortgagor.

Where appropriate, management makes specific provisions for loan losses.

NOTES TO FINANCIAL STATEMENTS

The following is a breakdown of the mortgages as at December 31:

	2001			2000		
	Number of mortgages	Amount $	%	Number of mortgages	Amount $	%
Conventional first mortgages	89	41,098,536	87.9	80	30,843,605	89.0
Conventional second mortgages	32	3,584,028	7.6	18	2,623,610	7.6
Non-conventional mortgages	4	2,136,626	4.5	2	1,175,125	3.4
	125	46,819,190	100.0	100	34,642,340	100.0
Allowance for loan losses		202,500			90,000	
		46,616,690			34,552,340	

The continuity of allowance for loan losses is as follows:

	2001	2000
Balance – Beginning of year	$ 90,000	$ —
Increase during the year	112,500	90,000
Write-offs during the year	—	—
Balance – End of year	$202,500	$90,000

Included in the Trust's non-conventional mortgages as at December 31, 2001 is an investment in the amount of $1,000,000 relating to an investment in a portfolio of mortgages.

The unadvanced funds under the existing mortgage portfolio were $12,600,000 as at December 31, 2001.

4 Bank indebtedness

The Trust entered into a credit arrangement and provided a general security agreement.

5 Units issued and outstanding

As at December 31, 1999 and 2000 (from original issue)		2,545,000
New units from public offering closed June 1, 2001	1,750,000	
New units from over-allotment closed June 20, 2001	262,500	
Total pursuant to June 20, 2001 offering		2,012,500
As at December 31, 2001		4,557,500

340,000 options have been authorized, of which, 232,500 options have been issued to the trustees, directors, officers and employees of the trust manager and mortgage banker, at $10 per unit. 100% of the optioned units are exercisable any time during the initial five-year period of the Trust.

NOTES TO FINANCIAL STATEMENTS

6 Distributable income

The Trust makes distributions to the unitholders on a monthly basis on or about the 15th day of each month other than January, and on December 31 in each calendar year. The declaration of trust provides that the Trust will distribute 100% of its income to the unitholders.

For the year ended December 31, 2001, the Trust distributed $3,643,300 (2000 – $2,422,400) to its unitholders. Distributable income on a per unit basis was $0.965 (2000 – $0.950).

7 Income taxes

The Trust is taxed as a mutual fund trust for income tax purposes. Pursuant to the declaration of trust, the Trust is required to distribute its income for income tax purposes each year to such an extent that it will not be liable for income taxes under Part I of the Income Tax Act (Canada). Therefore, no provision for income taxes is required on income earned by the Trust.

8 Related party transactions

FC Treasury Management Inc., as Trust manager, receives an advisory management fee equivalent to 0.75% per annum of the daily outstanding performing mortgage investment balances. The amount paid for the year ended December 31, 2001 was $312,873 (2000 – $264,710).

Firm Capital Corporation, as mortgage banker, receives loan servicing fees, pursuant to the declaration of trust, equal to 0.10% per annum on the principal amount of each mortgage investment.

9 Loans payable

A first priority charge on specific mortgage investments has been granted as security for the loans payable. The loans mature with dates consistent to those of the underlying mortgages. The loans are on a non-recourse basis.

10 Subsequent event

On March 1, 2002, the Trust completed a third public offering, issuing 3,000,000 units at a price of $9.40 per unit for total gross proceeds of $28,200,000. The exercise by the underwriters of the over-allotment option resulted in a further 450,000 units being issued on March 8, 2002 for gross proceeds of $4,230,000.

CORPORATE DIRECTORY

(1) Member of the Investment Committee
(2) Member of the Audit Committee
(3) Independent Trustee
(4) Chairman of the Board, Investment Committee and Audit Committee

Mortgage Banker

Firm Capital Corporation
www.firmcapital.com

Trust Manager

FC Treasury Management Inc.

Registered Office

Firm Capital Mortgage
Investment Trust
1244 Caledonia Road
Toronto, Ontario
M6A 2X5
Telephone: 416-635-0221
Fax: 416-635-1713
e-mail: www.trust@firmcapital.com

Auditors

PricewaterhouseCoopers LLP

Transfer Agent

Computershare Trust Company of Canada

Legal Counsel

Goodmans LLP

Stock Exchange Listing

TSE Symbol: **FC.UN**

Plan Eligibility

RRSP RRIF DPSP

Unitholder Distribution Reinvestment Plan

Firm Capital Mortgage Investment Trust is offering Canadian Unitholders of the Trust, an opportunity to increase their holdings by participating in the Trust's Unitholder Distribution Reinvestment Plan.

If you are a Unitholder and would like to enroll or would like further information about the Plan, please contact Firm Capital Mortgage Investment Trust, Attention: Susan Greenbaum-DiBari – Credit Manager and Investor Relations (tel. 416-635-0221)

Annual Meeting

Firm Capital Mortgage Investment Trust
Annual Meeting will be held on
April 30, 2002 at 12:30 p.m.
in the Gibson Ball Room –
2nd Floor Novotel North York Hotel
3 Park Home Avenue
North York, Ontario